



Ontario

Ministry
of
Revenue

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Retail Sales Tax Branch

Information Bulletin

Retail Sales Tax Act

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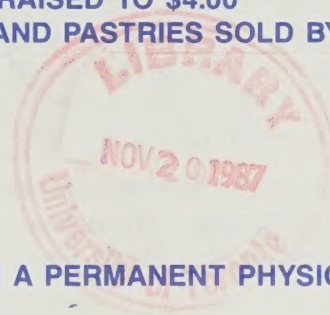
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PREPARED FOOD PRODUCTS – EXEMPTION THRESHOLD RAISED TO \$4.00

Effective June 1, 1987, the retail sales tax exemption threshold for prepared food products sold by restaurants, snack bars and other eating establishments was increased from \$2.00 to \$4.00. Vendors were advised of this change through newspaper advertisements and by a notice enclosed with the May 1987 return card.

Retail sales tax does not apply to prepared food products sold by an eating establishment as part of one transaction for a **total charge of \$4.00 or less**. Where the total charge is more than \$4.00, tax applies at the rate of 7% to the full amount of the charge.

A vendor cannot average the total charge for a transaction among the number of persons in a group in order to avoid collecting tax. Tax applies to the full amount of the charge for a group transaction that totals more than \$4.00.

Prepared food products include meals, lunches, food products sold hot, and other arrangements of food sold by eating establishments for consumption on or off the premises. They also include non-alcoholic beverages such as tea, coffee, milk or juice.

Soft drinks are taxable **except when sold with prepared food products as part of one transaction for a total charge of \$4.00 or less**. Where soft drinks are sold with prepared food products as part of one transaction for a total charge of more than \$4.00, tax applies to the full amount of the transaction.

For retail sales tax purposes, **eating establishments** include:

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| • restaurants, including drive-ins | • convention centres |
| • pizzerias | • vending machines and coffee wagons |
| • take-out stores and home-delivery outlets | • caterers |
| • dining rooms and cafeterias | • trains, airplanes, and ships |
| • coffee shops, lunch counters, and snack bars | • snack bars at places such as fairs, exhibitions, sporting events, cinemas, theatres, and grocery stores |
| • hotels, motels, and lodging houses | • similar places or establishments where prepared food products are provided |
| • private or social clubs and Legion halls | |
| • cocktail lounges, taverns and bars | |

A number of items are not prepared food products but snack foods. Examples of snack foods are potato chips, corn chips, pretzels, popcorn, salted nuts, salted seeds, granola bars, puffs however flavoured and ice

cream products in prepackaged individual portions. With one exception, all snack foods are taxable regardless of where sold unless the total charge is less than 21 cents. As noted in the next section, prepackaged individual portions of snack cakes and pastries are considered to be prepared food products when sold by an eating establishment. When sold by other vendors, prepackaged individual portions of snack cakes and pastries are taxable as snack foods when sold for 21 cents or more.

Hand scooped or machine dispensed ice cream, ice milk, sherbet, frozen yogurt and frozen custard are prepared food products and tax-exempt if sold for \$4.00 or less. Bulk ice cream, ice milk, sherbet, frozen yogurt and frozen custard when sold in sizes of one-half litre or more are food products and tax-exempt.

Candies and confections remain taxable unless sold for less than 21 cents.



PREPACKAGED INDIVIDUAL PORTIONS OF SNACK CAKES AND PASTRIES SOLD BY AN EATING ESTABLISHMENT

Snack foods subject to retail sales tax include snack cakes and pastries prepackaged by a manufacturer in individual portions for sale as such off the premises where they are manufactured. Effective June 1, 1987, when such prepackaged individual portions of snack cakes and pastries are sold by an eating establishment, they are considered to be prepared food products. In this case, the \$4.00 exemption threshold applies.

When sold by other vendors, prepackaged individual portions of snack cakes and pastries remain taxable as snack foods when sold for 21 cents or more.



TAX-INCLUDED PRICING

The use of tax-included pricing by vendors in the hospitality industry as an alternative to tax-extra pricing was introduced in 1982 following the removal of the exemption threshold for prepared food products. The purpose of this provision was to facilitate quick turn around time for vendors with a high volume of sales which previously did not attract tax.

In recent years, an exemption threshold for prepared food products has been reintroduced and subsequently increased to \$4.00. As a result, not all sales of prepared food products by an eating establishment are taxable. Therefore, eating establishments can no longer use tax-included pricing for sales of prepared food products unless every item on the menu is over \$4.00.

Eating establishments selling alcoholic beverages may continue to use tax-included pricing for sales of liquor, beer and wine instead of showing the tax as a separate item on their bills. Vendors using tax-included pricing for sales of alcoholic beverages must either post a sign in a prominent location or state in their price lists that prices for alcoholic beverages include 10% retail sales tax. As an alternative, the amount of tax included in each price may be stated on the sign or menu.

Other vendors in the hospitality industry may still use tax-included pricing if all their sales are taxable. Such vendors include those selling soft drinks from vending machines or prepackaged ice cream from mobile carts. Where tax-included pricing is permissible, vendors choosing to use this method must post a sign in a prominent location stating that prices include 7% retail sales tax, or alternatively, the amount of tax included in each price.

If you operate an eating establishment that is no longer permitted to use tax-included pricing, all signs or menus referring to this type of pricing must be removed or changed immediately. If this is not done, you will be considered to have collected tax on all sales regardless of the \$4.00 threshold and will be responsible for remitting this tax to the Treasurer of Ontario.



COUPONS

Where a coupon is submitted toward the purchase of taxable goods as either partial or full payment, the tax application depends on the type of coupon.

Retailers' Discount Coupons

For retail sales tax purposes, a retailer's discount coupon is one which:

- offers a discount on the purchase of a specific product at the retailer's store(s); and
- does NOT specifically state that the retailer will be reimbursed by a third party, such as a manufacturer.

A retailer accepting such coupons as partial payment is considered to have sold the merchandise at a reduced price. In this case, tax is payable by the customer on the net price **after** deducting the value of the coupon.

Some discount coupons appearing in a retailer's advertising material are actually manufacturers' discount coupons. As outlined in the next section, the tax on sales involving manufacturers' discount coupons is calculated differently.

Manufacturers' Discount Coupons

For retail sales tax purposes, a manufacturer's discount coupon is one which:

- offers a discount on the purchase of a specific product; and
- specifically states that the retailer **WILL** be reimbursed by a third party, either directly from the manufacturer or through a coupon clearing house.

Where a retailer accepts a manufacturer's discount coupon as partial payment, tax is payable by the customer on the full price **before** deducting the value of the coupon. In this case, the retailer has not lowered the price; rather, another party (the manufacturer) has paid part of the purchase price on behalf of the customer.

Apart from the use of money coupons which are discussed later, the acceptance by a retailer of a manufacturer's discount coupon is the only situation

involving coupons where tax is payable on the full price before deducting the value of the coupon.

Coupons Offering Free Merchandise

Where a coupon issued by either a retailer or a manufacturer offers free taxable merchandise with no requirement to purchase other merchandise, the person presenting the coupon is not required to pay tax on the free merchandise. In this case, the person bearing the expense of the free merchandise is required to pay tax on the cost of such merchandise.

Where a coupon issued by either a retailer or a manufacturer offers free taxable merchandise with the purchase of other taxable merchandise, tax is payable by the customer on the amount paid for the merchandise including the free merchandise.

Where a coupon issued by either a retailer or a manufacturer offers free taxable merchandise with the purchase of other merchandise which is tax exempt, the person presenting the coupon is not required to pay tax on the free merchandise. In this case, the person bearing the expense of the free taxable merchandise is required to pay tax on the cost of such merchandise.

Co-Promotion Coupons

Two retailers may enter into a co-promotion arrangement under which coupons issued by one retailer are redeemable on the purchase of merchandise sold by the other. A retailer redeeming a co-promotion coupon treats it in the same manner as a retailer's discount coupon. Tax is payable by the customer on the net price **after** deducting the value of the coupon.

Competitor's Coupons

A retailer redeeming a competitor's discount coupon treats it as a retailer's discount coupon and charges tax to the customer on the net price **after** deducting the amount allowed for the coupon.

Money Coupons

Some franchised retailers give their customers money coupons at the time of sale. These coupons can be redeemed at any associated franchise store regardless of which store originally distributed the coupons. Tax is payable by the customer on the full price **before** deducting the value of any money coupons tendered as partial or full payment.



GIFT CERTIFICATES

No tax is payable on the purchase of a gift certificate. When a gift certificate is presented in partial or full payment of a purchase, tax is payable by the customer on the full purchase price **before** deducting the value of the gift certificate.



AUTOMOBILE MANUFACTURERS' REBATES

A rebate provided by an automobile manufacturer to the retail purchaser of a motor vehicle does not reduce the taxable amount. Retail sales tax must be calculated on the price negotiated between the purchaser and the dealer without any allowance for any rebate received by the purchaser from the automobile manufacturer. This applies whether the rebate is paid directly to the purchaser or is assigned by the purchaser to the dealer.



PURCHASE EXEMPTION CERTIFICATES

The Retail Sales Tax Act provides exemption from tax in certain circumstances. Some items such as food are exempt to all purchasers. In other cases, exemptions are conditional in that they are limited to a specific class of purchaser or to goods purchased for a specific purpose. For example, retailers may purchase goods for resale without paying retail sales tax.

A person claiming a conditional exemption must provide the supplier with a purchase exemption certificate. Where the customer does not provide a purchase exemption certificate, the supplier **MUST** charge tax.

Purchase exemption certificates provided by customers must be kept by suppliers in a manner which will permit the Retail Sales Tax Branch to readily match exempt sales with the related certificates. Vendors who have not charged tax on sales of goods subject to tax will be assessed a penalty for non-collection of tax unless such sales are supported by valid purchase exemption certificates.

Many vendors issue blanket purchase exemption certificates. It is important to note that such certificates are valid for a maximum of three years from the date of issue after which new certificates must be obtained.

Further information on the use of purchase exemption certificates is contained in Ontario Sales Tax Guide 104 which is available from your local Retail Sales Tax Office.



TAX REFUNDS: VEHICLES TO TRANSPORT PERSONS WITH A PERMANENT PHYSICAL DISABILITY

The Ontario Retail Sales Tax Act provides for a refund of the tax paid on the purchase or long term lease of certain licensed motor vehicles used to transport persons with a **permanent** physical disability. Effective October 1, 1987, the conditions under which a refund may be obtained under this program have been modified somewhat.

For the purpose of the refund program, a person with a permanent physical disability means a person ordinarily resident in Ontario who is:

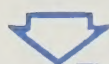
- permanently deprived of the functional use of one or both arms or legs; or
- permanently restricted to the use of a wheelchair, crutches, braces or similar mobility aids; or
- legally blind.

Although certain illnesses may result in some incapacity, they will not, by themselves, be considered permanent physical disabilities for the purpose of this refund. Examples are asthma, angina, emphysema and similar illnesses.

Subject to certain conditions, the following may be entitled to a tax refund:

- a person with a permanent physical disability;
- a qualifying member of the family of a person with a permanent physical disability;
- a religious, charitable or non-profit organization.

Further information and a refund application are contained in Ontario Sales Tax Guide 118 which is available from your local Retail Sales Tax Office.



THREE YEAR TIME LIMIT FOR FILING REFUND APPLICATIONS

The Retail Sales Tax Act imposes a three year time limit on all refunds except those involving tax included in uncollectable accounts. With this one exception, refund applications received after the three year limit will be disallowed.

Applications by religious, charitable or benevolent organizations for a refund of the tax paid by construction contractors on work performed for these organizations must be received by the Ministry of Revenue within three years of the last payment on the contract.

In all other cases where the time limit applies, applications must be received within three years from the date the tax was paid.

Further information concerning retail sales tax refunds is contained in Ontario Sales Tax Guide 106 which is available from your local Retail Sales Tax Office.



ONTARIO SALES TAX GUIDES

The Retail Sales Tax Rulings previously published by the Retail Sales Tax Branch were rescinded several years ago. Most of the information in these rulings is now contained in a series of Ontario Sales Tax Guides.

The following Ontario Sales Tax Guides are available in English or French at Retail Sales Tax Offices.

GUIDE NO.	TOPIC	DATE OF ISSUE	GUIDE NO.	TOPIC	DATE OF ISSUE
100	Do You Need a Vendor's Permit?	Aug 1987	127	Exempt Items for the Disabled	Sept 1982
101	How to Complete Your Tax Return	Jan 1985	128	Rentals	Sept 1982
102	Settler's Effects	Sept 1982	129	Delivery Charges	Sept 1982
103	Vendor Responsibilities	June 1986	130	Recreational Facilities	June 1986
104	Purchase Exemption Certificates	Sept 1985	131	Tax Refunds: Religious, Charitable and Benevolent Organizations	Sept 1982
105	Penalties	June 1986	132	Motor Vehicle Transfers	Jan 1987
106	Retail Sales Tax Refunds	Jan 1987	133	Diplomats	May 1986
107	Trappers and Commercial Fishermen	Jan 1983	134	Non-Resident Contractors	Jan 1983
108	Imported Goods	Sept 1982	135	Animals and Pets	Sept 1982
111	Production Machinery and Consumables	Jan 1987	136	Florists and Nurseries	Sept 1982
113	Real Property and Fixtures	Sept 1982	137	Flea Markets	June 1987
114	Destruction of Records	June 1986	138	Books and Magazines	Sept 1982
115	Automotive Repairers	Sept 1982	140	Children's Clothing and Footwear	Mar 1987
117	Private Sales	Sept 1985	141	Hospitals	June 1987
118	Tax Refunds: Transportation of Physically Disabled Persons	Sept 1987	143	Religious, Charitable and Benevolent Organizations	Mar 1987
119	Food Products	June 1987	144	Photographers	Dec 1983
120	Labour Charges	Jan 1987	145	Flooring Materials	Jan 1983
121	Prepared Foods	June 1987	147	Farmers	Feb 1987
122	Snack Foods and Candies	Oct 1987	148	Newspapers and Supplements	July 1985
123	Tax-Included Pricing	June 1987	149	Status Indians	Jan 1987
124	Accommodation	June 1987	150	Retail Sales Tax Rates	June 1987
125	Alcoholic Beverages	June 1987	151	Motor Vehicle Dealers	Mar 1987
126	Admissions	June 1987	152	Small Businesses	Feb 1987
			153	Understanding Your Retail Sales Tax Audit	May 1987

Some guides have been withdrawn. If you have any guides from this series which are not listed above, they should be destroyed as the information in them may no longer apply.

Those in your possession bearing an earlier date of issue than that shown above should also be destroyed as the information in them will not be current. The latest versions can be obtained from your local Retail Sales Tax Office.

As a result of an identified need, certain guides have also been published in Chinese, Korean and Greek. Discussions are being held with other ethnic groups to determine whether guides are required in their languages and, if so, which ones would be helpful.

The information in this publication is only a guideline. For more specific information, please consult the Retail Sales Tax Act or contact your local Retail Sales Tax Office listed in the blue pages of your telephone directory.